

Message Text

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AMCONSUL FRANKFURT
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USAFE RAMSTEIN
USCINCEUR STUTTGART

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E.O. 11652: NA
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SUBJ: RUHR CITIES PROTEST AGAINST PROPOSED TAX ABOLITION

1. BEGIN SUMMARY: TWELVE RHINE-RUHR CITIES, ALL SPD GOVERNED,
PROTESTED AGAINST THE PROPOSED ABOLITION OF THE PAY ROLL
TAX, A MAJOR SOURCE OF MUNICIPAL INCOME. FEDERAL MINISTER
OF FINANCE, HANS MATTHOEFER, AGREED TO POSTPONE UNTIL NEXT
SPRING THE DECISION WHETHER ABOLITION OF THIS TAX SHOULD
BE INCLUDED IN THE CONTEMPLATED TAX REFORM PACKAGE. THE
POSTPONEMENT WOULD WIN TIME FOR A SATISFACTORY SOLUTION
TO COMPENSATE THE CITIES FOR THEIR ANTICIPATED INCOME
LOSSES. END SUMMARY.

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PAGE 02 DUSSEL 01359 231122Z

2. TWELVE SPD LORD MAYORS OF THE PRINCIPAL RHINE-RUHR
CITIES MET IN ESSEN ON AUGUST 21, 1978 WITH FEDERAL
MINISTER OF FINANCE, HANS MATTHOEFER, NORTH RHINE-
WESTPHALIAN (NRW) MINISTER OF FINANCE, DR.DIETHER
POSSER AND NRW/SPD CHAIRMAN JOHANNES RAU, TO PROTEST
AGAINST THE ABOLITION OF THE PAY ROLL TAX AS PART OF
THE FEDERAL GOVERNMENT'S PROPOSED TAX REFORM PACKAGE.

MATTHOEFER AGREED TO EXEMPT THE PAY ROLL TAX, A MAJOR SOURCE OF CITY INCOME, FROM THE REFORM PACKAGE UNTIL NEXT SPRING. HE AGREED THAT THE CITIES WILL NEED COMPENSATION FOR THE REVENUE LOSSES, ESTIMATED AT DM 2 TO 3 BILLION, WHICH WOULD RESULT FROM THE PROPOSED ABOLITION, BUT HE WAS UNABLE TO MAKE CONCRETE PROPOSALS. THE CITIES WOULD PREFER TO KEEP THE TAX AND LOOK UPON A COMPENSATORY ARRANGEMENT AS A LESS DESIRABLE ALTERNATIVE.

3. TO SUBSTANTIATE THEIR CLAIMS THE -RED" LORD MAYORS REFERRED TO RESOLUTIONS ADOPTED BY THE NRW AND FEDERAL SPD, WHICH CALLED FOR A FEDERAL-WIDE INTRODUCTION OF THE PAY ROLL TAX. MATTHOEFER ARGUED THAT ONLY 10 PERCENT OF ALL GERMAN CITIES ARE LEVYING THE TAX, THE ABOLITION OF WHICH HE CONSIDERS NECESSARY FOR REASONS OF TAX SIMPLIFICATION.

4. AS A NEXT STEP THE LORD MAYORS ARE PLANNING TO TAKE UP THE MATTER WITH CHANCELLOR HELMUT SCHMIDT AND SPD BUNDESTAG FACTION CHAIRMAN HERBERT WEHNER. THE QUESTION WILL ALSO PLAY AN IMPORTANT ROLE AT A SPECIAL NRW/SPD CONVENTION ON SEPTEMBER 17, 1978, WHEN A SUCCESSOR TO NRW MINISTER PRESIDENT HEINZ KUEHN IS TO BE SELECTED. POSSER AND RAU, WHO ARE BOTH CANDIDATES FOR THE JOB OF NRW MINISTER PRESIDENT, UPHELD THE POSITION OF THE CITIES.
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UNCLASSIFIED

PAGE 03 DUSSEL 01359 231122Z

5. COMMENTS: REPORTEDLY MATTHOEFER WAS UNDER SHARP ATTACK DURING THE 3 HOUR DISCUSSION BEHIND CLOSED DOORS, CHIEFLY FOR HAVING YIELDED TO THE DEMANDS OF THE FDP IN THIS FIELD. THE LORD MAYORS DID NOT ACCEPT MATTHOEFER'S ARGUMENT THAT THE PAY ROLL TAX IS DETRIMENTAL TO THE CREATION OF URGENTLY NEEDED JOBS. THEY POINTED OUT (SOMEWHAT SPECIOUSLY) THAT AACHEN WHICH DOES NOT LEVY THE TAX HAS AN UNEMPLOYMENT RATE OF 6.1 PERCENT COMPARED WITH 3 PERCENT IN BIELEFELD WHICH DOES HAVE THE TAX. THE PAY ROLL TAX IS A MAJOR SOURCE OF MUNICIPAL INCOME AND THE CONTEMPLATED ABOLITION HAS UNITED THE SPD LORD MAYORS IN RARE UNANIMITY AGAINST THE "UNREALISTIC" TAX PROPOSALS WORKED OUT AT THE GREEN TABLES OF BONN. AN INCREASE IN THE TRADE TAX (GEWERBESTEUER) AS AN ALTERNATIVE IS HELD TO BE UNDESIRABLE SINCE IT WOULD BE CHIEFLY AT THE EXPENSE OF SMALL AND MEDIUM SIZED BUSINESS.DUX

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